

**REPORT OF THE AUDIT OF THE  
SCOTT COUNTY  
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period  
April 16, 2014 Through April 15, 2015**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**SCOTT COUNTY**  
**SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period**  
**April 16, 2014 Through April 15, 2015**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the Scott County Sheriff for the period April 16, 2014 through April 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected 2014 taxes of \$30,158,245 for the districts, retaining commissions of \$1,014,121 to operate the Sheriff's office. The Sheriff distributed 2014 taxes of \$29,127,491 to the districts. Refunds of \$7,858 are due to the Sheriff from the taxing districts.

**Report Comment:**

2014-001    The 2014 Tax Settlement Was Not Accurate Or Properly Supported

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2014 TAXES .....	4
NOTES TO FINANCIAL STATEMENT .....	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	11
COMMENT AND RECOMMENDATION .....	15





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable George Lusby, Scott County Judge/Executive  
Honorable Tony Hampton, Scott County Sheriff  
Members of the Scott County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Scott County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through April 15, 2015 - regulatory basis, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable George Lusby, Scott County Judge/Executive  
Honorable Tony Hampton, Scott County Sheriff  
Members of the Scott County Fiscal Court

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of April 15, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2014 through April 15, 2015 of the Scott County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 4, 2015 on our consideration of the Scott County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Scott County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Scott County Sheriff's internal control over financial reporting and compliance.



To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable George Lusby, Scott County Judge/Executive

Honorable Tony Hampton, Scott County Sheriff

Members of the Scott County Fiscal Court

**Other Reporting Required by Government Auditing Standards (Continued)**

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The 2014 Tax Settlement Was Not Accurate Or Properly Supported

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a stylized flourish at the end.

Mike Harmon

Auditor of Public Accounts

November 4, 2015

SCOTT COUNTY  
TONY HAMPTON, SHERIFF  
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 16, 2014 Through April 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,404,123	\$ 3,555,949	\$ 17,080,037	\$ 4,377,656
Tangible Personal Property	142,358	263,067	1,011,307	941,638
Increases Through Exonerations	53	84	378	1,429
Franchise Taxes	130,454	194,111	862,091	
Additional Billings	18,995	28,104	134,902	34,590
Limestone, Sand and Gravel Reserves	247	366	1,757	450
Penalties	5,599	8,316	39,781	10,828
Adjusted to Sheriff's Receipt	(28)	(45)	(197)	(167)
Gross Chargeable to Sheriff	<u>2,701,801</u>	<u>4,049,952</u>	<u>19,130,056</u>	<u>5,366,424</u>
<u>Credits</u>				
Exonerations	3,893	5,971	27,687	15,850
Discounts	43,297	65,056	307,478	90,747
Delinquents:				
Real Estate	33,206	49,116	235,914	60,465
Tangible Personal Property	1,162	1,992	8,319	6,536
Additional Bills	23	37	150	44
Additional Bill-Uncollected	29	43	205	52
Franchise Taxes	<u>16,121</u>	<u>21,781</u>	<u>94,814</u>	
Total Credits	<u>97,731</u>	<u>143,996</u>	<u>674,567</u>	<u>173,694</u>
Taxes Collected	2,604,070	3,905,956	18,455,489	5,192,730
Less: Commissions *	<u>110,673</u>	<u>166,003</u>	<u>516,754</u>	<u>220,691</u>
Taxes Due	2,493,397	3,739,953	17,938,735	4,972,039
Taxes Paid	2,491,350	3,736,992	17,928,757	4,970,392
Refunds (Current and Prior Year)	<u>2,819</u>	<u>3,668</u>	<u>15,115</u>	<u>2,889</u>
(Refunds Due Sheriff)				
as of Completion of Audit	<u>\$ (772)</u>	<u>\$ (707)</u>	<u>\$ (5,137)</u>	<u>\$ (1,242)</u>

\*\*

\* and \*\* See next page.

The accompanying notes are an integral part of this financial statement.

SCOTT COUNTY  
TONY HAMPTON, SHERIFF  
SHERIFF'S SETTLEMENT - 2014 TAXES  
For The Period April 16, 2014 Through April 15, 2015  
(Continued)

\* Commissions:

4.25% on \$ 11,702,756

2.8% on \$ 18,455,489

\*\* Special Taxing Districts:

Library District	\$	(271)
------------------	----	-------

Health District		(232)
-----------------	--	-------

Extension District		(204)
--------------------	--	-------

(Refunds Due Sheriff)	\$	<u>(707)</u>
-----------------------	----	--------------

SCOTT COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Scott County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Scott County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

SCOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2015  
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 24, 2014 through April 15, 2015.

Note 4. Interest Income

The Scott County Sheriff earned \$928 as interest income on 2014 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of November 4, 2015, the Sheriff owed \$463 in interest to the school district and \$319 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Scott County Sheriff collected \$41,664 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

2012	\$2,735
2013	\$3,237
2014	\$1,332

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable George Lusby, Scott County Judge/Executive  
Honorable Tony Hampton, Scott County Sheriff  
Members of the Scott County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Scott County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through April 15, 2015 - regulatory basis and the related notes to the financial statement and have issued our report thereon dated November 4, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Scott County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Scott County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Scott County Sheriff's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying comment and recommendation as item 2014-001 that we consider to be a significant deficiency.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Scott County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **Sheriff's Response to Finding**

The Scott County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. The Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", followed by a horizontal line.

Mike Harmon  
Auditor of Public Accounts

November 4, 2015

COMMENT AND RECOMMENDATION



SCOTT COUNTY  
TONY HAMPTON, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period April 16, 2014 Through April 15, 2015

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2014-001 The 2014 Tax Settlement Was Not Accurate Or Properly Supported

---

The following errors were noted with the tax settlement prepared by the bookkeeper:

- Franchise taxes collected per the settlement did not agree to the ledger or recap of monthly reports.
- Refunds per the settlement did not agree to the supporting documentation, recap of cancelled checks, or monthly reports.
- Total delinquent franchise taxes per the settlement did not agree to the list of franchise bills turned over to the County Clerk. One of the six franchise bills turned over as delinquent had been paid in the Sheriff's office and was noted as paid on the bookkeeper's franchise ledger.
- Delinquent Real Estate reported on settlement did not agree to supporting documentation for any of the districts and Delinquent Tangible for the County did not agree to support. One bill was included on the settlement as delinquent, and even though it had been paid, it was not marked paid in system.
- In addition to the errors noted above, the settlement did not calculate correctly, causing the settlement prepared by the bookkeeper to show the Sheriff owed the districts \$14,634, while the audited settlement shows a refund due the Sheriff of \$7,858.

In addition, the following errors were noted with monthly reports:

- Discount was not included for LSG bill paid during discount period.
- Property tax bill paid during the discount period was not included on monthly report or marked paid until August.
- Funds for three franchise bills were deposited into the 2014 tax account, but the bills were not included on a monthly report and never distributed. One of these bills was listed as paid on the 2015 ledger, instead of the 2014 ledger.

Errors as noted above were due to deficiencies in the internal control structure. The tax settlement was not reviewed by someone not involved in the preparation of the settlement. Good internal controls require sufficient reconciliation and review procedures to ensure significant errors do not go undetected.

To prevent the errors and deficiencies noted above and improve financial accountability over tax collections and distributions, we recommend:

- Monthly tax reports to the districts should be reviewed to ensure the correct distribution is reported.
- Bank reconciliations should be properly reviewed to determine they are accurate. In addition, someone other than the bookkeeper should complete a "Determination of Fund Balance" for the tax account at the end of each month.
- Refund calculations should be reviewed for correctness and refund checks written for the month should be agreed to the refund credit taken per the monthly report.

*Sheriff's Response: We have improved the controls in this area to improve this area.*

